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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 AID-05 EB-08 TRSE-00 SS-15
STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 PA-01
ICAE-00 NSCE-00 SSO-00 H-01 L-03 ABF-01 DODE-00
INRE-00 HA-05 IO-13 /101 W
----------051702 200130Z /70
O R 200056Z MAY 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC IMMEDIATE 112
INFO AMEMBASSY QUITO
AMEMBASSY LA PAZ
AMEMBASSY SANTIAGO
AMEMBASSY BOGOTA

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E.O. 11652: N/A
TAGS: EFIN, PE
SUBJECT: PERU'S FINANCIAL CRISIS:CENTRAL BANK PRESIDENT COMMENTS:
MISSION TO US NEXT WEEK

REF: LIMA 4352

1. SUMMARY: NEW CENTRAL BANK PRESIDENT MOREYRA INDICATED IN HIS FIRST PUBLIC STATEMENT THAT HE INTENDS TO TAKE FIRM AND INDEPENDENT HAND IN FINANCIAL MANAGEMENT, INCLUDING SETTLING OF OFFICIAL EXCHANGE RATE (RATE TODAY UNCHANGED AT 149.65 BUYING AND 150.40/$ SELLING). MOREYRA CALLED FOR VOLUNTARY ACCEPTANCE OF NEED FOR AUSTERITY ON PART OF MILITARY AND CIVILIANS ALIKE HE INDICATED THAT GOP COUNTS ON ITS FRIENDS IN INTERNATIONAL FINANCIAL COMMUNITY AND EXPRESSED APPRECIATION TO NEIGHBORING CENTRAL BANKS ASSISTING PERU AT THIS TIME OF FINANCIAL CRISIS. CD RATE WAS UNSTEADY WITH VERY LIGHT ACTIVITY IN 195-218/$ RANGE. GOP FINANCIAL MISSION PLANS VISIT
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WASHINGTON AND NEW NEXT WEEK. POLICIAL EVENTS CONNECTED WITH CURRENT FINANCIAL CRISIS REPORTED SEPTEL. END SUMMARY.

2. IN A STATEMENT TO THE PRESS ON ASSUMPTION OF OFFICE, NEW CENTTRAL BANK PRESIDENT MANUEL MOREYRA LOREDO SOUGHT TO ESTABLISH THAT THE BANK WILL HENCEFORTH PRO-VIDE FIRM LEADERSHIP IN DEALING WITH THE FINANCIAL CRISI.

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HE SAID HE WAS PLEASED TO BE NAMED TO THE POST, ESPECIALLY SINCE HIS ACCEPTANCE WAS ON THE CONDITION THAT THE BANK'S INDEPENDENCE WOULD BE RESTORED AS PART OF THE GENERAL PROCESS OF THE RESTORATION OF CIVILIAN INSTITUTIONS.

3. MOREYRA ANNOUNCED THAT IT WAS HIS INTENTION THA THE CENTRAL BANK WOULD IN THE SHORTEST TIME POSSIBLE ("AND I EXPECT IT WILL BE SOON") REGAIN CONTROL OF THE FOREIGN CURRENCY MARKET SAYING THAT THE RATE OF EXCHANGE WILL BE FIXED THROUGH THE ACTION OF THE CENTRAL BANK "WITHIN THE RULES OF THE MARKET". HE SAID THAT HE PALNNED TO SEEK WAYS TO RESTRICT THE GROWTH OF MONEY SUPPLY IN ORDER TO SLOW DOWN THE DECLINE IN TH VALUE OF THE SOL. AT THE SAME TIME, HE RECOGNIZED THAT THE EFFECTS OF THIS ACTION MUST BE TAKEN INTO ACCOUNT, PARTICULARLY THE EFFECT ON EMPLOYMENT.

4. HE CALLED FOR VOLUNTARY ACCEPTANCE OF THE NEED FOR AUSTERITY BY ALL. MORE SPECIFICALLY, HE URGED THAT "THOSE WITH ECONOMIC MEANS, SUCH AS MYSELF, MUST ACCEPT A REDUCED INCOME . . . THOSE WHO ENJOY PRIVILEGES, CIVIL AND MILITARY SHOULD VOLUNATARILY RENOUNCE THEM."

5. ON THE FOREIGN DEBT ISSUE MOREYRA PLEDGED THAT PERU WOULD "MAKE THE GREATEST EFFORT TO MEET ITS OBLIGATION ON TIME". HE EXPRESSED APPRECIATION TO LIMITED OFFICIAL USE

THE CENTRAL BANKS OF VENEZUELA, BRAZIL, ARGENTINA, COLOMBIA AND URUGUARY AS WELL AS THE ANDEAN DEVELOPMENT COPORATION (CAF) "FOR THE ASSISTANCE THAT THEY HAVE GIVEN US, ENHANCING OUR NEGOTIATING CAPACITY WITH THE INTERNATIONAL FINANCIAL COMMUNITY. HE SAID HE LOOKED FOWARD TO CLOSE RELATIONS WITH FOREIGN INSTITUTIONS THAT WOULD PERMIT "THE FRIENDLY RESOLUTION OF OUR COMMON PROBLEMS." HOWEVER, HE POINTED OUT THAT "WE WILL BE EQUALLY ZEALOUS IN THE PRESERVATION OF OUR DIGNITY. WE WILL ACCEPT NO DEMAND, NEGOTIATE NO SURRENDER OF ANY LEGAL RIGHT TO ANY INSTITUTION, NOR DELIVER ANY OF OUR NATURAL WEALTH NOR (PERMIT) THE FOREIGN TAKEOVER OF ANY INDUSTRY AS A CONDITION FOR OBTAINING NEW CREDITS OR THE REFINANCING OF ALL LOANS."

6. OFFICIAL EXCHANGE RATE MAY 19 WAS UNCHANGED AT 149.65/$ BUYING AND 150.40/$ SELLING, THROUGH MOST OBSERVERS EXPECT THAT UNDER MOREYRA'S DIRECTION A SERIES OF MINIDEVALUATIONS IS LIKELY TO BEGIN SOON. THE CERTIFICATE OF DEPOSIT (CD) MARKET WAS WEAK AND UNSTEADY WITH LIGHT TRADING IN 195/$ TO 218/$ RANGE AS COMPARED WITH A FIRM CD MARKET LAST WEEK, WHEN MOST BANKS QUOTED A 216.50 /$ RATE.

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7. GOP MISSION PLANNED. WE UNDERSTAND THAT GOP
FINANCIAL MISSION HEADED BY CENTRAL BANK PRESIDENT
MOREYRA PLANS VISIT WASHINGTON NEXT WEEK FOR TALKS
WITH IMF AND TO PROCEED TO NEW YORK (SEE STATE 126112).
DEPARTURE DATE DEPENDS ON PREPARATION AND TRANSLATION
OF NEW AIDE-MEMOIRE DETAILING LASTEST FINANCIAL DATA
UPON WHICH COMMERICAL BANKS ARE REPORTEDLY INSISITING.
IT NOW APPEARS MOST LIKELY THAT MISSION WILL DEPART MIDWEEK.
COMPOSITION OF TEAM IS AS YET UNDECIDED.
WE WILL ATTEMPT OBTAIN COPY OF AIDE-MEMOIRE BEFORE
MISSION DEPARTS, AND WILL IN ANY CASE INFORM DEPARTMENT
OF MISSION'S TRAVEL PLANS WHEN AVAILABLE, THROUGH
MOREYRA HAS NOT AS YET INDICATED INTEREST IN MEETING
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WITH USG OFFICIALS WHILE IN WASHINGTON.

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